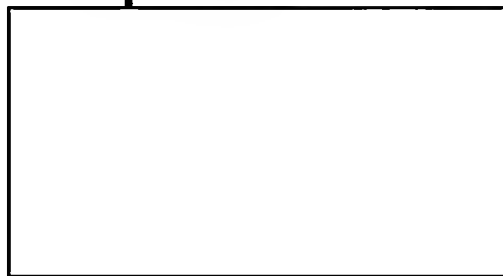


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EASTERN EUROPE - EC: In an unprecedented breaking of ranks with Moscow, the East European governments have urged the EC not to agree to a bloc-to-bloc agreement with CEMA that would restrict East European bilateral economic relations with EC members.

After the Soviet Secretary General of CEMA made an overture to the Danes late last month for establishing official contacts between EC and CEMA, the ambassadors of the East European members of CEMA called individually on two Danish ministers to inquire exactly what the Secretary General had said and what answers had been given him. According to the Danish Foreign Economic Minister, the ambassadors, with varying degrees of intensity, expressed the hope that the EC would not enter into a bloc-to-bloc agreement with CEMA. Several also pointed out that only the Soviet ambassador to Denmark accompanied the CEMA Secretary General, thus strongly indicating that the proposal, although made in CEMA's name, should be interpreted as a Soviet initiative.

The ambassadors' action emphasizes the value that each of Moscow's client states places on its prospects of establishing bilateral ties with the EC. Romania has already been granted arrangements that will enable it to benefit from the EC's generalized trade preference scheme.

Other East European countries share Bucharest's keen interest in expanding economic relations with the West, particularly when Moscow is using detente to advance its own economic interests. The ambassadors' action is thus a clear sign that the economic benefits of detente have led to some slippage of Moscow's control over its allies.

The EC Council yesterday decided on a very cautious reply to the Secretary General. He will be told that the EC is prepared to study his request for discussions and that CEMA may contribute to the study if it wishes. The community has avoided outright approval of his feeler so as not to imply institutional equality between itself and CEMA. Furthermore, the EC, like some of the East Europeans, views Soviet interest in detente as providing leverage to extract concessions from Moscow.

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\*CAMBODIA - NORTH VIETNAM: Sihanouk's latest statements on the Khmer Communists' military prospects in Cambodia reflect in part his long-standing concern over the level of Hanoi's support.

During press interviews this week in Algiers and Peking, Sihanouk maintained that victory over the Lon Nol government will be delayed for "many years" unless his Communist backers give the insurgents more material assistance. Sihanouk consistently singled out North Vietnam for special criticism, claiming that Hanoi was unwilling to transport Chinese-supplied arms to Cambodia. He also charged that the Vietnamese Communists had moved their arms caches in Cambodia to South Vietnam, thereby denying them to the insurgents. According to Sihanouk, he has made demarches to his allies on the supply problem but that "thus far, we have had nothing--or very little."

There is, of course, an element of scapegoatism in Sihanouk's remarks. He is disappointed over the insurgents' failure to take Kompong Cham. Nonetheless, since last January Sihanouk has been asserting that the Vietnamese have cut off arms and ammunition supplies.

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Subsequently, in early September, Sihanouk stated publicly that Hanoi had signed an agreement under which the insurgents would be supplied with arms and ammunition from Viet Cong stocks and Hanoi would be reimbursed by the Chinese. It is that agreement which Sihanouk now implies is not working properly.

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If Hanoi is unwilling to give the Khmer insurgents enough materiel to support sustained high-level military activity, it would indicate that the North Vietnamese are relatively satisfied with a status quo in Cambodia that protects their western flank and enables them to concentrate on South Vietnam. It may be, as Sihanouk charges, that Hanoi is more interested in ensuring that the US does not again become militarily involved in Indochina than it is in promoting an early Khmer Communist victory in Cambodia and another crisis situation there. Hanoi may also still entertain hopes of receiving some US assistance in the future and wishes to do nothing in Cambodia to jeopardize that possibility. At a minimum, the North Vietnamese may see some advantage in giving the appearance that they are acting with restraint in Cambodia.

\*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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ARGENTINA: Juan Peron stands a good chance of winning the election on Sunday by a larger margin than his stand-in Hector Campora did in the voting last March.

Argentines have shown little interest in the campaign which has largely been overshadowed by developments in Chile, and apathy or leftist defections could erode some of Peron's support. The US Embassy believes, however, that the Peron ticket will capture 55 to 60 percent of the vote. This would propel Peron beyond the 50 percent needed to avoid a runoff and provide him with a strong governing mandate.

The uninspiring vice presidential candidacy of his wife Isabel is unlikely to reduce his margin of victory because most voters do not take her seriously as a successor. The only inconclusive element in the contest is the impact of the government's decision to give recognition to the new Chilean junta on Wednesday night. Widespread leftist demonstrations, heavily flavored with anti-US sentiment, mobilized sympathy for the ousted Allende regime and played up "imperialist" involvement in the establishment of a military "dictatorship" in Santiago. Recognition by Buenos Aires implies an eagerness by both Peron and the Argentine armed forces to cement relations with the new junta quickly and head off what they fear most--that Chile will be drawn into the Brazilian orbit, thus encircling Argentina with regimes well disposed toward Argentina's archrival.

Peron's pragmatic move could have some effect on the turnout of left-wing voters who only recently had been brought back into the fold by Peron's skillful maneuvering.

Peron's nationalistic appeal, however, may offset any discontent over the recognition of Chile's new military rulers which most Argentines probably see as a practical and necessary step to avoid a rupture in the traditional friendship with the neighboring Andean country.

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CHILE: The situation remains generally calm.

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Workers appear to be returning to their jobs in the provinces and many public and private enterprises are operating normally. Gasoline, heating fuels, bread, and other essentials are becoming more available and black market activity is reported to have declined significantly from pre-coup levels. Although the supply board has announced that there is enough food in the country and that there are "abundant" reserves, the grain situation could become critical. Chilean officials fear that unless supplies of wheat become available soon, the country will be without bread for as long as three weeks within a month or so.

On the political front, the Christian Democrats, the conservative National Party, and the private enterprise guilds are competing for influence on the new regime. While the junta is relying on guild members for policy advice and technical expertise, the military has declared that it does not intend to rely on politicians of any stripe.

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INTERNATIONAL MONETARY DEVELOPMENTS: Heavy intervention by the German and French central banks was required in European money markets again yesterday to maintain the European joint float. Some of the market uncertainty rubbed off on the dollar. Total intervention by the European central banks in the first four days of this week amounts to at least \$1.5 billion. The Europeans probably are hoping that the intervention will keep the float intact today and that some indication of progress toward monetary reform at the annual meeting of the International Monetary Fund in Nairobi opening Monday will ease market pressures next week.

The Bundesbank's purchases of French francs so far this week reportedly amount to the equivalent of over \$800 million, including over \$400 million yesterday. The Bank of France, meanwhile, continues to be forced to sell the stronger joint float currencies--predominantly marks--to do its part to keep the float intact. Its sales are roughly equivalent to Bundesbank purchases. Paris also raised the French bank rate to 11 percent yesterday, the highest since World War II, and closer to rates prevailing elsewhere in Europe. This move helped ease pressures on the franc.

This is no indication that either Bonn or Paris is nearing its intervention limit and is preparing to change its currency's exchange rate. Paris officially is ridiculing any notion that it is on the brink of a franc devaluation. All the Europeans--including the Belgians whose franc is under upward pressure along with the mark--are holding their cards closely. In any event, official public statements have not been reliable indicators of national exchange rate policy when speculation dominates the money markets.

Pressures within the EC for independent national action illustrate the difficulties in maintaining the joint float. Such problems also will tend to reinforce the reluctance of London and Rome to associate their currencies with the float.

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The dollar dropped back to its lowest levels since 9 August and the Bundesbank intervened in small amounts to support the dollar. The dollar decline, coming only a day after another favorable report on the US balance-of-payments position, demonstrates the domination of psychology on the behavior of currency markets.

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FOR THE RECORD\*

Vietnam: [redacted] the Communists are extending the petroleum pipeline that crosses the DMZ into the A Chau Valley. The Communists have built about 14 miles of pipeline northward from the valley, and another 14 miles have to be laid before the pipeline is operational. When completed, it will allow Hanoi to ship petroleum directly to its forces in this large military base area. [redacted]

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

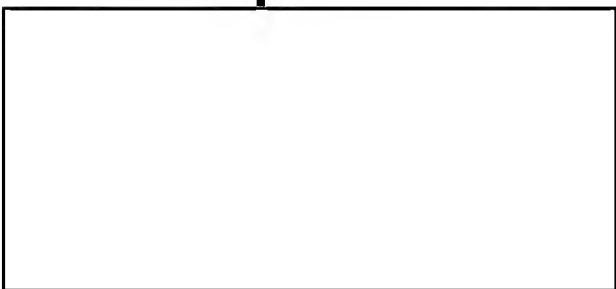
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